

Decision \_\_\_\_\_

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California Edison  
Company (U338E) For Recovery of McGrath  
Peaker Construction Costs.

Application 12-12-028  
(Filed December 31, 2012)

**DECISION GRANTING RECOVERY OF SOUTHERN CALIFORNIA EDISON  
COMPANY MCGRATH PEAKER CONSTRUCTION COSTS****1. Summary**

This decision authorizes Southern California Edison Company to recover the reasonable construction costs of the McGrath Peaker Generating Station, the final of five black start capable peaker units, which SCE was ordered to develop as part of Rulemakings (R.) 05-12-013 and R.06-02-013<sup>1</sup>.

**2. Background**

Southern California Edison Company (SCE) is an electric public utility organized under the laws of the State of California, which engages in the business of electric generation, transmission, and distribution. As a public utility, SCE is subject to Commission regulation.

As a result of heat storm and power-demand conditions experienced in southern California during July and August 2006, an "Assigned Commissioners' Ruling Addressing Electric Reliability Needs in Southern California for Summer

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<sup>1</sup> See page 7 of Assigned Commissioners' Ruling in R.05-12-013, dated August 15, 2006, Addressing Electric Reliability Needs in Southern California for Summer 2007.

2007” (ACR) in R.05-12-013 and R.06-02-013, directed SCE to develop five SCE-owned, black start capable peaker units,<sup>2</sup> of up to 250 megawatts total generating capacity, in order to provide urgently needed capacity and grid-reliability for its entire transmission and distribution system. The objective was to reduce the risk of shortages and blackouts during peak demand periods and other system emergencies.

SCE initially filed Application (A.) 07-12-029 in order to recover costs associated with acquiring and installing the five peaker units, the first four of which became operational by the summer of 2007.

The June 9, 2009, Scoping Memorandum in A.07-12-029 excluded costs related to the fifth peaker which had not yet been constructed, and ordered SCE to file a separate, subsequent application to recover reasonable costs associated with it once installed.

The fifth peaker, the McGrath Peaker Generating Station (McGrath Peaker), became operational on November 1, 2012. SCE then filed this application, A.12-12-028 on December 31, 2012 to demonstrate the reasonableness of the costs incurred to install the McGrath Peaker, and to address recovery of the revenue requirement associated with it.

SCE served testimony<sup>3</sup> with its application to explain the construction history of the McGrath Peaker. No protests were filed to the application. SCE

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<sup>2</sup> Black start is the ability to start or restore a power generator to operation without relying on energy sources external to the facility.

<sup>3</sup> SCE Company’s Peakers Cost Recovery Testimony dated December 31, 2012 (Testimony).

served supplemental testimony dated May 31, 2013, which included construction invoices and internal audit reports.<sup>4</sup>

A Prehearing Conference was held on June 6, 2013 before Administrative Law Judge (ALJ) Irene Moosen. There were no appearances besides SCE. SCE indicated that it would further update the cost totals related to the McGrath Peaker when final calculations became available. SCE served the final update to its testimony on February 28, 2014.<sup>5</sup>

By motion dated February 28, 2014, SCE moved for admission of its testimony and exhibits into evidence. The motion is granted and all testimony and exhibits shall be admitted.

### **3. Discussion**

As previously noted, the first four black start capable peaker units that SCE developed became operational during the summer of 2007; however, there were a series of challenges to the site location, installation and construction of the fifth, McGrath Peaker. These issues were ultimately resolved in October 2011 and the McGrath Peaker became operational November 1, 2012.

SCE testifies that it incurred acquisition and installation costs of approximately \$70 million<sup>6</sup> for the McGrath Peaker. SCE requests to have the McGrath Peaker costs placed permanently into rates and to have the associated revenue requirements allocated to all customers (not only bundled customers).

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<sup>4</sup> SCE Company's Supplemental Testimony in Response to ALJ Ruling (Public Version) dated May 31, 2013 (Supplemental Testimony).

<sup>5</sup> SCE's Update Testimony dated February 28, 2014 (Final Updated Testimony).

<sup>6</sup> Acquisition and installation costs reflected in the application are as of October 2012. The costs were further revised to reflect actual costs through December 2013.

The Commission's Decisions (D.) 09-03-031 and D.10-05-008 in A.07-12-029, determined that, as a matter of equity and fairness, it was reasonable to allocate costs associated with the first four peakers to all benefiting customers and to permit SCE to recover the resulting revenue requirement in all customer rates. We concluded in those decisions that: (1) the acquisition and installation costs associated with the peaker units were included in customer rates and subject to refund in SCE's Peakers Generation Memorandum account, which was authorized by Resolution E-4031; and (2) because the memorandum account was to be recovered monthly through SCE's Base Revenue Requirement Balancing Account, the costs were preliminarily included in rates, subject to a reasonableness review.<sup>7</sup> The same circumstances exist here.

In SCE's 2012 general rate case D.12-11-051, the Commission approved SCE's forecast of capital expenditures related to the McGrath Peaker, but still ordered a reasonableness review subsequent to completion. This application requests that reasonableness review.

#### **4. Acquisition and Construction Costs**

SCE's testimony identifies \$70,322,127 of capital costs<sup>8</sup> associated with the McGrath Peaker. The forecasted final costs in the supplemental testimony were estimated to be \$73,520,664, and SCE's final updated testimony reflects actual costs of \$73,530,482, through December 2013. Therefore, the difference between forecasted and actual costs are minimal.

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<sup>7</sup> D.10-05-008, at 4 -5; Resolution E-4031, dated November 9, 2006 in Advice Letter 2031, e-filed on August 24, 2006.

<sup>8</sup> See Table IV-1 on at 26 of Testimony.

The final updated testimony reflects a reduction in gas pipeline interconnection costs, which SCE attributes to a refund from Southern California Gas (the actual costs to construct the McGrath Peaker gas supply system were lower than initially estimated).

There are no protests in this proceeding regarding the reasonableness of SCE's cost forecasts or actual costs related to the McGrath Peaker. SCE has met its burden of proof to demonstrate that \$73,530,482 of costs through December 2013 are reasonable.

## **5. Litigation Costs**

It is worth noting that, \$8,656,836 of the costs are related to the long regulatory and litigation history and various legal challenges that ensued over the McGrath Peaker project between 2006 and 2012, including several appeals by the City of Oxnard (Oxnard), which challenged the coastal development permits granted to SCE by the California Coastal Commission. SCE's testimony contains a detailed description of the project's litigation history, which ultimately culminated in a settlement agreement between Oxnard and SCE under which Oxnard agreed to issue the permits necessary for SCE to complete construction. These litigation costs represent approximately 11.7% of the McGrath Peaker costs recorded by SCE.

The community's right to thoroughly vet projects which potentially impact their environment, including through legal challenges, is an important aspect of the regulatory process. It is likewise appropriate that SCE (or any regulated enterprise) accord such challenges serious attention and respond to them with sufficient alacrity and a measure of detail that will facilitate meaningful discourse about the pros and cons of the intended course of action/project.

Considering the complexity of the project, its importance to the community, and the scope of the environmental challenges spanning several years, we find SCE's litigation costs reasonable.

## **6. Comments on Proposed Decision**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the 30-day period for public review and comment is waived.

## **7. Categorization and Need for Hearings**

In Resolution ALJ 176-3307, dated January 10, 2013, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings would be necessary. However, no protests have been received, and there is no reason why the application should not be granted without further hearings. Accordingly, an evidentiary hearing is now deemed unnecessary.

## **8. Assignment of Proceeding**

President Michael R. Peevey is the assigned Commissioner. The assigned Administrative Law Judge is Patricia B. Miles.<sup>9</sup>

## **Findings of Fact**

1. By Rulemaking (R.) 05-12-013, the Commission directed SCE to develop five black start capable peaker units, in order to provide additional capacity and grid-reliability for its transmission and distribution system.

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<sup>9</sup> The proceeding was reassigned to Judge Miles on March 14, 2014.

2. SCE filed A.07-12-029 to recover costs associated with acquiring, installing and maintaining the five peaker units.

3. The June 9, 2009 Scoping Memorandum issued in A.07-12-029 included costs of the four peakers which became operational by the summer of 2007, but ordered SCE to file a separate application to recover reasonable costs associated with the fifth peaker once installed.

4. D.09-03-031 and D.10-05-008 concluded that it is appropriate to include the acquisition and installation costs associated with the peaker units in customer rates.

5. In SCE's 2012 general rate case, the Commission included SCE's forecast of capital expenditures related to the McGrath Peaker in rates, but ordered a reasonableness review after completion of the McGrath Peaker.

6. SCE filed A.12-12-028 on December 31, 2012 to demonstrate the reasonableness of the costs incurred to install the fifth peaker, which became operational on November 1, 2012.

7. SCE incurred costs of \$73,530,482 for the McGrath Peaker.

8. SCE submitted testimony, supplemental testimony and final updated testimony, which included construction invoices and internal audit reports to demonstrate the reasonableness of its costs.

9. SCE submitted testimony describing the long regulatory and litigation history which spanned six years, and resulted in litigation costs of \$8,656,836 related to the McGrath Peaker.

10. There are no protests in this proceeding to challenge the reasonableness of SCE's costs.

11. SCE has met its burden of proof to demonstrate that the costs incurred for the McGrath Peaker were reasonable.

**Conclusions of Law**

1. SCE has demonstrated that the costs incurred to acquire and install the McGrath Peaker were reasonable.
2. Costs for the McGrath Peaker are already authorized to be included in rates and to be allocated to all customers, not just bundled customers, by prior Decisions D.09-03-031, D.10-05-008 and D.12-11-051.
3. SCE's prepared Testimony dated December 31, 2012, Supplemental Testimony dated May 31, 2013 and Final Updated Testimony dated February 28, 2014 should be received into evidence and identified as Exhibits 1, 2 and 3 respectively.

**IT IS ORDERED** that:

1. Southern California Edison Company is authorized to recover in rates \$73,530,482 in capital costs to install the McGrath Peaker Generating Station. These costs, which were included in its Peakers Generation Memorandum Account, are no longer subject to refund.
2. Southern California Edison's prepared Testimony, Supplemental Testimony and Final Updated Testimony, are received into evidence and identified as Exhibits 1, 2 and 3 respectively.
3. No evidentiary hearings are necessary.
4. Application 12-12-028 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.